



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Scheduled Report - public distribution

Date: 11/26/1999

GAIN Report #SP9067

Spain

Wine Competition Annual

Trends in Spain's Wine Producing Sector

1999

Prepared by:

Office for Agricultural Affairs

U.S. Embassy

Drafted by: Diego Perez de Ascanio

Report Highlights:

Adverse weather conditions have again reduced the Spain's 1999 wine production, but the year vintage is reportedly of good quality and grape prices have notably increased or maintained year earlier high levels. Domestic wine consumption has increased over the last three years, breaking a previous long declining tendency.

Despite increased prices, Spanish wine exports attained a new record level. Spanish wine imports rebounded, but those sourced in the U.S. declined dramatically. With a different orientation, the new EU wine regime will be applicable next year. Negotiations for a renewed U.S.-EU wine accord are stalled.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
Madrid [SP1], SP

EXECUTIVE SUMMARY	Page 2 of 12
PRODUCT NARRATIVE	Page 3 of 12
Production	Page 3 of 12
Consumption	Page 5 of 12
TRADE	Page 6 of 12
Trade Flows	Page 6 of 12
Import Market Profile	Page 7 of 12
Export Market Profile	Page 8 of 12
Market Access	Page 9 of 12
Market Opportunities	Page 9 of 12
MARKETING	Page 11 of 12
Distribution	Page 11 of 12
Foreign Market Development	Page 11 of 12
Government Support	Page 11 of 12
Export Regulations	Page 12 of 12

EXECUTIVE SUMMARY

Spain's 1999 wine vintage is currently estimated at about 32.5 million hectoliters (one hl. equals 100 liters), down 3 percent from year earlier levels. While dryness affected certain key producing areas and severe frosts reduced grape crops in Rioja and Navarra, other leading areas such as Ribera del Duero or Rias Baixas had bumper crops. Grape prices in leading wine areas notably increased or maintained year earlier high levels.

Over the last three years, domestic wine consumption in Spain increased, breaking almost two of decades declining trend in Spain. Domestic direct wine consumption in 1998 rose to 14.14 million hectoliters, up 1.6 percent from year earlier levels. This represents a per capita direct wine consumption of nearly 36 liters. Last year, quality wine consumption rose 5.7 percent to a new record level, despite dramatic price increases. Consumption of ordinary wines also rose 2.1 percent and sparkling wines declined 9 percent from year earlier levels. During the first half of 1999, the tendency of growing consumption of quality wines has continued. In addition, sparkling wine domestic sales this year are rebounding due largely to the end of the millennium effect.

Spanish wine exports in 1998 rose 12 percent in terms of volume to 11.2 million hectoliters and 14 percent in terms of value to \$1.38 billion (Pts.206 billion). The main destinations were the rest of the EU (73 percent), the U.S. (7 percent) and Switzerland (5 percent). From a low in the previous year, wine imports in 1988 rebounded to 0.9 million hectoliters worth \$91 million (Pts.13.6 billion). U.S. wine imports into Spain last year declined dramatically in both terms of volume and value to 385 hectoliters and \$0.29 million, respectively.

During March 1999, a reform of the EU wine regime was approved with a new orientation. While the previous scheme stressed distillation and vineyard uprootings to tackle the problem of table wine surpluses, the new scheme seeks the enhancement of quality, a greater market orientation, and the renewal of old vineyards. Current general ban on new planting and the vineyard uprooting program are maintained, but the latter is not compulsory and is more flexible. A new support scheme for the production of alcohol to be used in the production of fortified wines and brandies is created. In addition, exceptionally and on a voluntary basis, a "crisis" distillation scheme may be adopted for eventual severe wine market imbalances or inventory surges.

Negotiations for a renewed U.S.-EU wine accord have continued with apparently little success. Among issues regarding wine trade between the U.S. and the EU are the mutual recognition of enological practices. The EU wants to use a positive list of practices and the U.S. wants a systems of mutual recognition for practices approved in either countries. Other topics of the negotiations include the protection of EU semigeneric/geographic names, traditional EU expressions (such as vintage, reserve, aged five years), labeling and certification, and tariff disparity.

Current Exchange rate: 161 pesetas/\$.

PRODUCT NARRATIVE

Production

	Revised 1997	Prelim 1998 (Metric tons)	Forecast 1999
Wine Grapes	5,215,800	4,733,500	4,497,600
		(Hectoliters)	
Wines	33,217,000	30,500,000	30,000,000
-quality	11,020,000	12,000,000	12,500,000
-table	20,452,000	18,000,000	17,000,000
-other	1,745,000	500,000	500,000
Grape must	4,503,000	3,221,000	2,543,000
Wine & must	37,720,000	33,721,000	32,543,000

Despite a recent major reduction in Spanish vineyards, the area planted to vineyards in Spain continues to be the largest in the EU, accounting for about 34 percent of the EU vineyard area, followed by France (27 percent), and Italy (25 percent). Nevertheless, total Spanish wine production ranks behind French and Italian production, mainly due to limited rainfall, poor soils in certain areas, and restrictive measures on vineyard irrigation. Due to the diversity of Spanish soils and climates, there are numerous Spanish wine areas which produce an broad range of wine types. There are currently more than 50 different Appellation of Origins (AO) throughout the country. Of the 17 Autonomous regions, only two— Asturias and Cantabria— has not any AO.

Wine production this year is estimated to be below an average crop year output. Dryness affected certain key producing areas such as Castilla-La Mancha and Valencia and severe frosts affected Rioja and Navarra which caused important reductions in the size of the grape harvests in these regions. Other areas such as Ribera del Duero and Rias Baixas, however, had bumper crops after several years of weather reduced crops. In general terms, grape quality is good, and the prices for grapes in leading wine producing areas have notably increased or maintained year earlier high levels. Thus, grape prices in Rioja or Ribera del Duero have been over 300 pesetas per kilogram. This situation will benefit other areas which produce fair quality wines at modest prices such as La Mancha and Jumilla.

Breakdown of wine production by areas in the last two years are as follows:

	1998 (Hectoliters)	1999
Castilla-La Mancha (1)	17,748,400	15,959,000
Andalucia (2)	1,621,100	1,880,000
Valencia region (3)	2,475,700	1,971,000
Cataluna (4)	2,982,300	3,217,000
Extremadura	1,912,300	2,387,000
Galicia (5)	848,400	990,000
Castilla-Leon (6)	918,400	1,324,000
Rioja (7)	1,989,500	1,476,000
Aragon(8)	953,700	972,000
Murcia (9)	597,400	652,000
Navarra (10)	692,700	621,000

Pais Vasco	606,500	513,000
Madrid (11)	275,000	382,000
Canary Islands (12)	70,000	165,000
Others	29,800	34,000
- TOTAL WINES AND MUSTS	33,721,200	32,543,000

The 1999/00 vintage will be the last one in which the current Government support scheme will apply. This is provided under several EU schemes, the most prominent of which include distillation intervention, storage aids, and vineyard restructuring support, as follows:

1. Surplus Spanish wine is sold into intervention where it is subsequently distilled into alcohol. Wine alcohol is partially used in making sherry, other fortified wines and spirits, brandy in particular, and the remaining is normally exported. For the 1997/98 marketing year, the EU approved a 10.5 million hls. distillation scheme, of which more than half, 5.9 million hectoliters, were allocated to Spain.
2. Spanish vineyard area was reduced from 1.650 million hectares in 1975 to 1.123 million at the beginning of the 1997/98 wine year. This represents a decline of 527,000 hectares, or a 32 percent cut in the Spanish vineyard area. The EU 1442/88 vineyard up-rooting plan which aimed to eliminate 490,000 hectares of vineyards in the EU, especially contributed to the cut in vineyards in Spain, especially in Castilla-La Mancha.
3. While plantings of vines for the production of non-quality vineyards continues to be banned in the EU, plantings of vines for the production of quality vines are subject to quotas.

Five years of disagreement between northern and Mediterranean countries stalled the reform of the EU wine regime which was finally approved last March. The new scheme which will be applicable beginning with the next vintage seeks the enhancement of quality, a greater market orientation, and the renewal of old vineyards. The new regime calls for quality enhancement by restructuring vineyards (54,000 hectares annually) with better varieties or appropriate production techniques. The EU share for the financing of restructuring programs will be 50 percent, and in the least developed areas could be up to 75 percent. Uprooting programs would be maintained, however, only exceptionally and on a voluntary basis. In addition, the current vineyard planting ban would be extended through July 31, 2010. A reserve of planting rights of no more than one percent of the total vineyard area would be created in each member state to permit transfers of planting rights between regions, with young farmers to be the main beneficiaries of such a reserve.

The current distillation program, including preventive, compulsory and support distillation schemes would be eliminated. A special distillation scheme to secure alcohol to producers of fortified wines and brandy, as well as a "crisis" distillation scheme for potential surges in wine stocks or severe quality reductions would also be created. The current wine storage aid scheme is maintained. Enological practices are also maintained, including the chaptalization, the practice of adding sugar to wine during the fermentation process to increase the alcohol content. This is a very contentious issue between Northern and Southern European countries. The former use chaptalization because the sugar content of northern grape varieties is low and the latter, as is the case of Spain, believe that only grape must or concentrated juice should be used to enhance the alcohol content of wines. The EU budget for the wine sector would be increased from 800 million ECUS for 1998 to 1.292 million ECUS for the year 2001 and 1,335 million ECUS for the year 2003.

Negotiations for a new U.S.-EU wine accord have continued with apparently little success. Among issues regarding wine trade between the U.S. and the EU are the mutual recognition of enological practices. The EU wants to use a positive list of practices and the U.S. wants a systems of mutual recognition for practices approved in either countries. Other topics of the negotiations include the protection of EU semigeneric/geographic names, traditional EU expressions (such as vintage, reserve, aged five years), labeling and certification, and tariff disparity.

Consumption

In the last three years, domestic wine consumption in Spain increased, breaking an almost two decades declining trend in Spain. Current levels of per capita direct wine consumption is nearly 36 liters. This represents a big drop from the early seventies, when consumption was about 70 liters. Current Spanish per capita wine consumption also contrasts with about 60 liters in France and Italy.

In 1998, quality wine consumption rose 5.7 percent to a new record level, despite dramatic price increases. Consumption of ordinary wines also rose 2.1 percent and sparkling wines declined 9 percent from year earlier levels. During the first half of 1999, the tendency of growing consumption of quality wines has continued. In addition, sparkling wine domestic sales this year are rebounding due largely to the end of the millennium effect. As indicated in the table below, table (ordinary) wines are the most consumed in Spain. Average annual per capita consumption of table wines is about 25.4 liters, compared to 8 liters for quality wines and 1.35 liters for sparkling wines. Table (ordinary) wines are mostly sold in tetra-brick packs, followed by 3/4 liter bottles and returnable containers and are mostly consumed in homes.

In the quality wine market, reds are the most sold, accounting for nearly 60 percent of sales. Whites and roses account for about 20 percent of sales, each. Rioja was the leading quality wine type sold last year (39 percent), followed by Valdepenas (10 percent), Penedes (8 percent), Navarra (7 percent) and Ribera del Duero (4 percent).

Below are data on wine sales and per capita wine consumption in Spain during the last three years.

	CY 1996	CY 1997 (hectoliters)	Prel. CY 1998
Total Wines	12,982,000	13,924,000	14,147,000
-Quality	2,825,000	3,026,000	3,199,000
-Table	9,096,500	9,881,000	10,096,000
-Sparkling	517,000	591,000	538,000
-Other	543,500	426,000	314,000
		(liters/year)	
Per capita direct wine consumption	33.0	34.8	35.6

TRADE**Trade Flows**

	CY 1996	CY 1997	CY 1998
VOLUME OF WINE IMPORTS			
	(Hectoliters)		
-Intra EU Imports	248,089	130,147	915,784
-Extra EU Imports	944,606	38,153	7,017
TOTAL	1,192,695	168,300	922,801

CIF VALUE OF WINE IMPORTS			
	(Million pesetas)		
-Extra EU Imports	6,695	6,090	12,998
-Extra EU Imports	3,506	506	597
TOTAL	10,201	6,596	13,595

VOLUME OF WINE EXPORTS			
	(Hectoliters)		
-Intra EU Exports	5,317,349	7,451,637	8,381,394
-Extra EU Exports	1,901,500	2,564,613	2,842,914
TOTAL	7,218,849	10,016,250	11,224,308

FOB VALUE OF WINE EXPORTS			
	(Billion pesetas)		
-Intra EU Exports	110	133	151
-Extra EU Exports	35	47	55
TOTAL	145	180	206

Import Market Profile

	CY 1996	CY 1997	CY 1998
VOLUME OF WINE IMPORTS (Hectoliters)			
Wines	1,150,696	126,346	885,182
-Sparkling	13,477	12,809	13,257
-Quality, still	12,895	9,527	32,374
-Table, still	1,114,014	95,828	828,809
-Fortified	10,310	8,182	10,742
Other:grape must, vermouth, sangria, other flavored wines	41,999	41,954	37,619
TOTAL	1,192,695	168,300	922,801

C&F VALUE OF WINE IMPORTS (Million pesetas)			
Wines	8,952	5,328	12,654
-Sparkling	2,633	2,739	3,063
-Quality, still	536	530	917
-Table, still	5,214	1,407	7,914
-Fortified	569	652	760
Other:grape must, vermouth, sangria, other flavored wines	10,201	1,268	941
TOTAL	10,201	6,596	13,595

Wine Imports by Source in CY 1997 and 1998

Country	1997		1998	
	Volume (Hls.)	Value (Million Pts.)	Volume (Hls.)	Value (Million Pts.)
EU countries	130,147	6,090	915,784	12,998
The U.S.	656	94	385	44
Chile	3,880	117	2,406	124
Argentina	30,640	115	1,108	43
Australia	-	-	51	3
South Africa	50	2	73	4
China	280	6	569	12
Hungary	280	32	245	4
Israel	140	2	37	2
Bulgaria	13	-	13	1
Switzerland	135	11	554	19
Other	2,079	127	1,576	341
Total	168,300	6,596	922,801	13,595

Export Market Profile**VOLUME OF WINE EXPORTS**

(Hectoliters)

	CY 1996	CY 1997	CY 1998
Wines	6,664,819	9,419,432	10,652,851
-Sparkling	546,922	1,055,548	709,176
-Quality, still	2,270,401	3,188,050	3,308,710
-Table, still	3,014,248	4,550,627	6,089,997
-Fortified	833,248	625,207	544,968
Other:grape must, vermouth, sangria, other flavored wines	554,030	596,818	571,457
TOTAL	7,218,849	10,016,250	11,224,308

FOB VALUE OF WINE EXPORTS

(Billion pesetas)

Wines	138	169	198
-Sparkling	25	31	34
-Quality, still	61	81	96
-Table, still	24	32	47
-Fortified	28	25	21
Other:grape must, vermouth, sangria, other flavored wines	7	11	8
TOTAL	145	180	206

Wine Exports by Destination in CY 1997 and 1998

Country	1997		1998	
	Volume (Hls.)	Value (Billion Pts.)	Volume (Hls.)	Value (Billion Pts.)
EU countries	7,451,637	133	8,381,394	151
The U.S.	205,126	13	215,959	14
Switzerland	363,860	8	381,526	10
Canada	209,780	12	58,697	2
Norway	81,200	3	77,768	3
Japan	79,500	3	157,352	6
Andorra	49,130	1	45,867	1
Mexico	23,450	1	26,415	1
China	207,090	2	356,827	5
Russia	5,180	-	83,320	1
Other	1,340,297	4	1,439,183	12

Total	10,016,250	180	11,224,308	206
-------	------------	-----	------------	-----

Peseta/US\$ exchanges rates: 1996 - 126.32; 1997 - 146.41; 1998 - 149.40; current - 161.00

Source: Spanish Customs Office.

Market Access

1. Import Duties: As part of the Uruguay Round Agreement, the EU is currently phasing down import duties on agricultural products, including wines. The reduction in import duties on wines is scheduled as follows:

Import Duties	Previous 1995	Current (Euros/100 liters)	2000 July-Dec.
Bottled wine, still	16.40	13.70*	13.10
Sparkling wine	40.00	33.30	32.00

*At the current Euro/U.S. dollar rate of 1.0315, it makes 14 U.S. cents per liter or 10.5 U.S. cents for a regular 75 CL wine bottle.

2. Excise taxes: no excise taxes apply to domestic or imported wines in Spain.

3. Value Added Tax: Like domestic wines, imported wines are subject to a 16 percent VAT.

Market Opportunities

Spain's wine imports are basically limited to a few narrow market segments. Thus, Spain should be considered as only a specialty market for wine imports. Some high priced U.S. brands already have in-country distribution, and there are also some marketing opportunities for medium priced wines.

Import Requirements:

Importers may be any individual or company located in Spain or in any other EU country. Spanish importers with an address in Spain have to have a fiscal I.D. from the Ministry of Finance (Ministerio de Economia y Hacienda). For wine shipments larger than 3,000 liters, an import certificate— called AGRIM— is required. A deposit, with rates depending on the type of the wine must be made. However, deposits not exceeding 120 Euros are exempted. The import certificate has to be requested prior to the shipment, having a validity for the rest of the month in which was issued plus 4 months, i.e. a certificate issued on November 24 will be valid through March 31. The certificate is valid for entire EU.

The following documentation is required for customs clearance of wines:

- 1) Bill of lading
- 2) Certificate of Origin
- 3) An original Commercial Invoice with a copy

4) An import declaration

As indicated above, wine imports into Spain are subject to the EU import duty rates shown on the table as well as to a 16 percent VAT.

Wines are also subject to sanitary inspection at Customs. Importers have to be registered at the Public Health Unit of the Autonomous Region's Government where they are located. Importers based in other EU countries not having a domicile in Spain, however, should be registered with the Central Government's Ministry of Health at the following address:

Registro Sanitario de Alimentos
Direccion General de la Salud Publica
Subdireccion General de Higiene de los Alimentos
Ministerio de Sanidad y Consumo
Paseo de Prado, 18-20
28071 Madrid
Phone: (34) 91 596-1966 and 91 596-1950
Fax: (34) 91 596-4487

Please note that importers must have a sanitary registration number which, along with their names and addresses, must appear on the label.

As in other EU countries, product labeling must comply with stringent information requirements including net content, alcoholic degree, lot marking, country of origin and importer's name, address and sanitary registration number. Label information must be in Spanish. Stickers are allowed.

There is some labeling information mandatory in the U.S. but prohibited in the EU, as follows: The government warning statement and the sulfite declaration. In addition, generic or semigeneric designations having geographic significance such as Sherry or Champagne, or the terms "Method Champanoise", "table wine", and "reserve" are prohibited in the EU.

A customs agent or broker is normally involved in clearing products at customs. Import declarations are made at the State Secretariat of Commerce or its branch delegations in major port cities throughout the country. Declarations must use the exact terminology of the tariff classification under which the goods are being imported. A three-month grace period is allowed for U.S.-origin goods arriving without proper documentation, subject to a written guarantee by the customs agent.

MARKETING

Distribution

In country distribution is normally made through wineries' distributors. As shown in the table below, while hotels, restaurants and institutions are the main markets for quality wines, sales of ordinary table as well as sparkling wines are mainly done in supermarkets for home consumption.

Wine Sales in CY 1988 (volume terms)		Market Shares (Percentage)	
Wine type	HRI	Home	Total
Quality	71	29	100
Table	49	51	100
Sparkling	42	58	100
Other	65	35	100

Concerning exports, the most common way for Spanish wineries is to sell directly to an importer located in the destination country. Lack of industry concentration and organization on the part of Spanish wine producers usually enables distributors to fully extract price concessions in the domestic and foreign markets. Only a very few large producers are able to implement their own marketing criteria. There are about 6,000 wineries in Spain, of which about 300 account for 80 percent of total wine exports.

Foreign Market Development

The Spanish Foreign Trade Institute (ICEX), an Agency of the Ministry of Industry, Commerce and Tourism, is responsible for diversified government-funded foreign market promotion programs for food products as well as other non-food items such as industrial products, consumer goods, and fashion.

ICEX food product promotional activities are focused on EU markets and include sponsorship and participation in trade fairs, point-of-sales promotions, market research, trade missions, training and direct assistance to exporters. The Institute's promotional activities abroad are supported by eleven promotional centers, seven of which are food/beverage-related and located in New York, Toronto, Dusseldorf, The Hague, London, Paris and Milan, and by 80 trade offices around the world. Five trade offices are located in the U.S. (Chicago, Los Angeles, Miami, New York, and Washington). There is also an office in San Juan, Puerto Rico.

Competitor's market promotion activities are mainly conducted by the Port Wines Institute, the Italian Institute for Foreign Trade, and the French SOPEXA. Market development efforts for wine in Spain are for the most part focused on participation in Intervin, a wine show associated with ALIMENTARIA, which is held biannually in Barcelona. ALIMENTARIA is the third largest such event held in Europe, after ANUGA and SIAL. In 1999, 508 exhibitors participated at Intervin, of which 48 were foreign exhibitors. Next Intervin show is scheduled for March 2000.

Government Support

Under the current limits of the WTO, EU export refunds are available for table wines and certain fortified wines to certain destinations. Spanish wine exports with EU export refunds primarily consist of bulk reds and roses destined to African markets and bulk whites shipped to Eastern European markets.

Subsidized exports of Spanish wines amounted 2.50 million hls. in 1997, more than doubling the figure of the preceding year. Total export refunds on these exports increased from 3.9 billion pesetas in CY 1996 to 4.7 billion pesetas in CY 1997.

Export Regulations

The Spanish Vineyard, Wine and Alcohol Act of 1971 is the legal framework for the production, marketing and imports and exports of Spanish wines.